

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

SECOND NOTICE OF THE UNITED STATES POSTAL SERVICE OF  
FILING OF REVISED ANNUAL COMPLIANCE REPORT PAGES -- ERRATA  
(January 31, 2017)

The Postal Service hereby gives notice of filing of revised versions of pages 24 and 41 of the FY 2016 Annual Compliance Report, originally filed on December 29, 2016. The changes in the attached revised pages correct a typographical error and a transposition error in the text of the ACR, and do not reflect any changes in analytic results.

Page 24

Change:

For FY 2015, the ratio was 59.19 percent.

To:

For FY 2016, the ratio was 59.19 percent.

Page 41

Change:

The passthrough for DNDC letters was 191.3 percent and the passthrough for DSCF letters was and 175 percent.

To:

The passthrough for DNDC letters was 175 percent and the passthrough for DSCF letters was 191.3 percent.

Other than these revisions and those filed on January 25, 2017, all other pages remain as originally filed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 277-6333  
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Table 2: Standard Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue (\$million)	Volume Variable & Product Specific Costs	Contri- bution	Revenue/ Piece	Cost/ Piece	Unit Contri- bution	Cost Cover- age
HD/Sat Letters	6,992	\$1,075	\$492	\$583	\$0.154	\$0.070	\$0.083	218.39%
HD/Sat Flats & Parcels	11,047	\$2,004	\$1,190	\$814	\$0.181	\$0.108	\$0.074	168.41%
Carrier Route Letters	6,642	\$1,793	\$1,304	\$489	\$0.270	\$0.196	\$0.074	137.53%
Letters	48,859	\$10,134	\$5,023	\$5,111	\$0.207	\$0.103	\$0.105	201.75%
Flats	6,307	\$2,368	\$2,970	(\$602)	\$0.375	\$0.471	(\$0.095)	79.73%
Parcels	45	\$53	\$83	(\$30)	\$1.187	\$1.860	(\$0.673)	63.80%
Every Door Direct Mail Retail	810	\$146	\$54	\$92	\$0.180	\$0.067	\$0.113	269.45%
Standard Mail NSAs	228	\$54	\$49	\$5	\$0.236	\$0.216	\$0.020	109.37%
Standard Mail Fees		\$48						
Total Standard Mail (incl. fees)	80,930	\$17,675	\$11,165	\$6,510	\$0.218	\$0.138	\$0.080	158.30%

As shown above, all Standard Mail products, other than Standard Mail Parcels and Standard Mail Flats, covered their costs in FY 2016. As a class, Standard Mail covered its volume variable and product specific costs and contributed significantly to institutional costs.

Under section 3626(a)(6), when the Postal Service adjusts Standard Mail prices, the estimated average revenue per piece for Standard Mail sent by nonprofit mailers must equal, as nearly as practicable, 60 percent of the estimated average revenue per piece for Standard Mail sent by commercial customers. For FY 2016, the ratio was 59.19 percent.

#### i. Standard Mail Parcels

Standard Mail Parcels covered 63.8 percent of its volume variable and product specific costs in FY 2016, down from 72.8 percent in FY 2015. This was partly due to a slight increase in labor costs combined with a substantial decrease in parcel volume. The combination of these two trends caused unit costs to increase significantly in a

FY 2014, increased to 7.2 cents in FY 2015, and fell to 7.1 cents in FY 2016. The price approved for this letter category in Docket No. R2017-1 will reduce the discount from 8.9 cents to 8.7 cents, thereby reducing the passthrough to 122.5 percent. However, adjusting the Nonautomation 5-Digit letter price to bring the passthrough down to 100 percent would require a price increase as high as 4.3 percent, which could result in rate shock for mailers in this price category. The Postal Service acknowledges that the passthrough can also be reduced by lowering the price of the benchmark instead of increasing the price of Nonautomation 5-Digit letters. The Postal Service does not favor this approach, however, as lowering the price of the benchmark would send an inefficient price signal to mailers by reducing their incentive to presort their mail. Accordingly, the Postal Service justifies this passthrough pursuant to section 3622(e)(2)(B). The Postal Service intends to reduce this passthrough in the next general market-dominant price adjustment, or to cite to a statutory exception at that time, taking into consideration other business and operational needs.

### **Dropship Discounts**

Two passthroughs for the Dropship Discounts for Letters exceed 100 percent. The passthrough for DNDC letters was 175 percent and the passthrough for DSCF letters was 191.3 percent. These percentages compare favorably to the 225 percent passthroughs that were reported last year. In Docket No. R2017-1, the Postal Service dropped the discount for DNDC letters from 0.35 to 0.26 and dropped the discount for DSCF letters from 0.44 to 0.35. Reducing these discounts will further improve these passthroughs when the prices become effective in FY 2017. However, aligning these discounts with their avoided costs at one time would result in a price increase as large